

Functioning of the Local Production Systems in Central and Eastern European Countries and Siberia

Case Studies and Comparative Studies

**Edited by
Mariusz E. Sokołowicz**



**WYDAWNICTWO
UNIWERSYTETU
ŁÓDZKIEGO**

ŁÓDŹ 2015

Mariusz E. Sokołowicz – University of Łódź, Faculty of Economics and Sociology
Institute of Spatial Economics, Department of Regional Economy and Environment
90-214 Łódź, 36 Rewolucji 1905 r. St.

REVIEWER

Adam Polko

PUBLISHING EDITOR

Bogusława Kwiatkowska

TYPESETTING

AGENT PR

COVER DESIGN

Stämpfli Polska Sp. z o.o.

Cover photo: © Shutterstock.com

Monograph financed under a contract of execution of the international scientific project within 7th Framework Programme of the European Union, co-financed by Polish Ministry of Science and Higher Education (title: “Functioning of the Local Production Systems in the Conditions of Economic Crisis (Comparative Analysis and Benchmarking for the EU and Beyond”))

Monografia sfinansowana w oparciu o umowę o wykonanie projektu międzynarodowego w ramach 7. Programu Ramowego UE, współfinansowanego ze środków Ministerstwa Nauki i Szkolnictwa Wyższego (tytuł projektu: „Funkcjonowanie lokalnych systemów produkcyjnych w warunkach kryzysu gospodarczego (analiza porównawcza i benchmarking w wybranych krajach UE oraz krajach trzecich”))

© Copyright by University of Łódź, Łódź 2015

Published by Łódź University Press

First Edition. W.06764.14.0.K

Ark. wyd.10,7; ark. druk. 14,375

ISBN 978-83-7969-491-4 (p)

ISBN 978-83-7969-492-1 (online)

Łódź University Press

90-131 Łódź, 8 Lindleya St.

www.wydawnictwo.uni.lodz.pl

e-mail: ksiegarnia@uni.lodz.pl

tel. (42) 665 58 63, faks (42) 665 58 62

Print and setting: Quick Druk

CONTENTS

M. E. Sokolowicz – Foreword	7.
--	----

PART I. CASE STUDIES

K. Borseková, K. Petříková – Creative local production systems (the case of building a creative city Košice)	15.
N. A. Kravchenko – Regional production system driven by innovation development: case of Siberia, Russia	41.
I. Slavova-Georgieva – The competitiveness of cluster “Srednogorie med”: preconditions and limitations	53.
Y. Tselodub – Coal mining areas: environmental issues and solutions (on the example of Kuzbass)	71.
R. Radev – Business strategies of companies and local production systems in Bulgarian dairy industry	91.

PART II. COMPARATIVE STUDIES

M. Kalisiak-Mędelska – Self-government in Poland and Russian federation – introductory remarks	119.
B. Gontar – Email inquiries in hotels. Comparative study of Łódź and Novosibirsk	139.
I. Bednarska-Wnuk – Mobile behaviors of generation C in the local labor Market: A case study of Poland and Russia	153.
K. Januszkiewicz – A career model under the conditions of change and economic crisis – a comparative study conducted in Poland and Russia	173.
Z. Gontar – Perspectives of Integrated “Next Industrial Revolution” Clusters in Poland and Siberia	189.
M. Marks-Krzyszowska – Polish and Russian rural areas in transition. Land and demography	211.

*Radko Radev**

BUSINESS STRATEGIES OF COMPANIES AND LOCAL PRODUCTION SYSTEMS IN BULGARIAN DAIRY INDUSTRY

1. Introduction

The literature on the issues of strategic management gives great attention to the matters related to business strategies and the intensity of competition in particular, as its main component.¹ However, their examination is performed mainly on a conceptual basis, which prevents their implementation in a particular sector and specific business organization, without taking into account its inherent characteristics. When considering business strategies in LPS, the situation is even more specific.

Subject of study in the current paper are the business strategies of companies and LPS (to the extent that such are identified) in milk products'

* Assoc. Prof., PhD, University of National and World Economy, Sofia, Bulgaria, e-mail: radko_radev@unwe.eu

¹ Porter M., *Competitive strategy: techniques for analyzing industries and competitors*, Free Press, New York 2008; I. Ansoff, *Corporate strategy: an analytic approach to business policy for growth and expansion*, McGraw-Hill, New York 1965; I. Ansoff, *Strategic Management*, Palgrave Macmillan, New York 2007; H. Mintzberg, J. B. Quinn, S. Ghoshal, *The Strategy Process: Concepts, Contexts, Cases*, Pearson Education 2003; P. Kotler, K. Keller, *Marketing management*, Prentice Hall, New Jersey 2012; Ch. Hill, G. Jones, *Strategic Management – Theory: An Integrated Approach*, USA: Cengage learning 2009.

sector. For this purpose, the Porter's and Ansoff's concepts for business strategies are adopted. They are widely accepted by scientists and researchers in the managerial and marketing scientific area.² Despite this, they need adaptation, aiming at reflection of the specific conditions of this particular industry.

The aim of the paper is to present the results of adapting Porter's and Ansoff's concepts for business strategies in respect to the specifics of Bulgarian dairy products sector. Due to the popularity of these concepts, their theoretical aspects are not considered in the paper.

Object of study in the current paper is the milk products' sector in Bulgaria as a strategic business area. The sector is characterized by intense competition and constantly changing environment. Within its boundaries, a wide variety of companies is identified, distinguished by their size, product specialization, market coverage, objectives, strategies, product profile and market profile. In this sector, also, different types of LPS can be identified.

The dynamic environment of this industry is determined by:³

- opportunities for entry and exit of competitors in the sector;
- continuous change in consumer behavior;
- changes in the meaning of different communication channels and specific means;
- restructuring of distribution channels;
- development of substitute products;
- strong vertical integration with raw material suppliers;
- specific regulatory actions and existing regulations that affect the industry;
- disloyal competition.

² D. A. Miles, *Risk Factors and Business Models: Understanding the Five Forces of Entrepreneurial Risk and the Causes of Business Failure*, Florida: Universal-Publishers 2011; M. R. Grant, *Contemporary Strategy Analysis: Text Only*, John Wiley and Sons 2010; D. Ahlstrom and G. D. Bruton, *International Management: Strategy and Culture in the Emerging World*, Mason, OH: Cengage Learning 2009; H. Simon, *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders*, Springer 2009; G. Johnson, K. Scholes, R. Whittington, *Exploring Corporate Strategy*, FT: Prentice Hall 2010; A. Henry, *Understanding Strategic Management*, Oxford University Press 2008.

³ Author's own research conducted within individual university project No. 2-7/2011, UNWE, Sofia: *Characteristics of business planning in companies from the FMCG sector in Bulgaria*. Completion date: December 2013.

The thesis stated in the paper asserts that business strategies, including these referring to LPS in the selected sector, are characterized by the sector's specific features. They could be specified only if the product profile of the sector and these of the leading competitors are determined.

As far as data and research methods are concerned, the methodologies of Porter's and Ansoff's concepts for business strategies were used. For deepening the results, a variety of other popular methods are also applied in the paper: analysis and synthesis, induction and deduction, structural and comparative analysis, grouping methods, method of analogy, graphical methods, expert assessment, statistical methods, etc.

The scope of the study covers 24 of the leading manufacturers of milk products in Bulgaria which are of national importance. Moreover, primary and secondary information sources are used. For the collection of primary information the author has performed his own research, which includes: analytical review of the websites of companies involved, visiting the companies' stores, interviews with managers and owners.

The secondary data sources that are used are official financial and accounting documents,⁴ analyses of the Ministry of Agriculture and Food (MAF)⁵ concerning the market of milk products in Bulgaria,⁶ data from the Bulgarian Association of Dairy Processors.⁷

The study was carried out by a specially elaborated methodological framework (figure 1). It takes into account all of the starting conditions and limitations. The methodological framework enables the performance of a reliable analysis of the intensity of competition, even in conditions of information deficit. This makes it suitable for application by large companies, as well as by medium and small ones, experiencing difficulties in the development of management information systems due to lack of experience or financial resources.

⁴ Bulgarian Trade Register., <http://public.brra.bg/CheckUps/Default.ra?0>

⁵ Ministry of Agriculture and Food (MAF), www.mzh.government.bg/MZH/bg/ShortLinks/SelskaPolitika/MarketMeasures/Sectors/Milk.aspxh

⁶ Magazine "My Store", <http://www.mytore.bg/n/n%D0%BEvini/2012/pazarat-napaketiran-kaskaval-v-balgaria>; <http://www.mystore.bg/n/n%D0%BEvini/2012/pazarnoprocuvane-otnosno-pazara-na-sirene-v-balgaria>; Magazine "Regal", <http://www.regal.bg/show.php?storyid=2084599>

⁷ Bulgarian Association of Dairy Processors, <http://www.milkgb.org/>

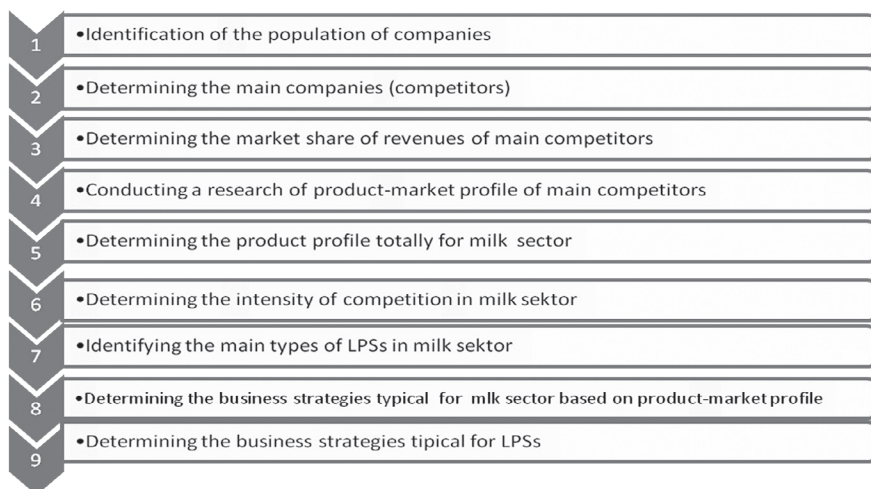


Figure 1. Methodological framework of the study

Source: own study

The proposed methodology allows the determination of the sector's structure and intensity of competition by Porter's five forces model. It also allows the determination of companies' product-market profile. This makes possible the introduction of some typical business strategies for companies and LPSs in the milk sector.

2. Analysis of competition intensity and product-market profile in the dairy sector

The identification and analysis of competition is enabled by appliance of industrial and market concepts.⁸ The first is necessary in order to define the product boundaries in the sector as well as the different product categories, and the second – for the identification of competitors and differentia-

⁸ P. Kotler and K. Keller, *Marketing management*, Prentice Hall, New Jersey 2012, 4th edition, p. 16–18.

tion of market segments and strategic groups.⁹ In order to refine the boundaries of the sector, the concept of strategic business areas and strategic business units is applied.¹⁰

For the aims of the current paper, the industrial concept is considered. Because of this, adaptation of the concepts for business strategies mentioned above requires the introduction of two levels of determination of competition. First level refers to the analysis of competition in the product class as a whole, and the second – to the separate product categories. The market concept requires the analysis to be conducted in separate geographic markets, market segments and distribution channels. Due to the necessity of a thorough and detailed market research, this paper is limited to the business strategies, which are assumed by the industrial concept.

2.1. Identification of the population of companies

There are many companies operating within the class. They are different by size, legal form, product specialization and market coverage. The companies include, in their scope of business activities, manufacturing and trade with milk products, and are approved for trade within the EU.¹¹

Figure 2 shows that this sector is characterized by high intensity of competition throughout the considered period. In 2001 the number of dairy processors in Bulgaria was about 450. In the following years (2002–2007) the competitors' number has decreased to 229, retaining at this level until 2010. In 2011 there were 252 companies identified, which were included in the list of approved establishments for manufacturing and trade with food products of animal origin.¹²

⁹ M. Porter, *Competitive strategy: techniques for analyzing industries and competitors*, Free Press, New York, 2008, p. 127–152; P. Kotler and K. Keller, *Marketing management...*, p. 218–232.

¹⁰ I. Ansoff, *Strategic Management*, Classical Edition, Palgrave Macmillan, New York 2007.

¹¹ www.mzh.government.bg/MZH/bg/ShortLinks/SelskaPolitika/MarketMeasures/Sectors/Milk.aspxh

¹² List of approved establishments for intracommunity trade with food products of animal origin, covered by Annex III of Regulation (EC) No 853/2004 of the European Parliament and of the Council.

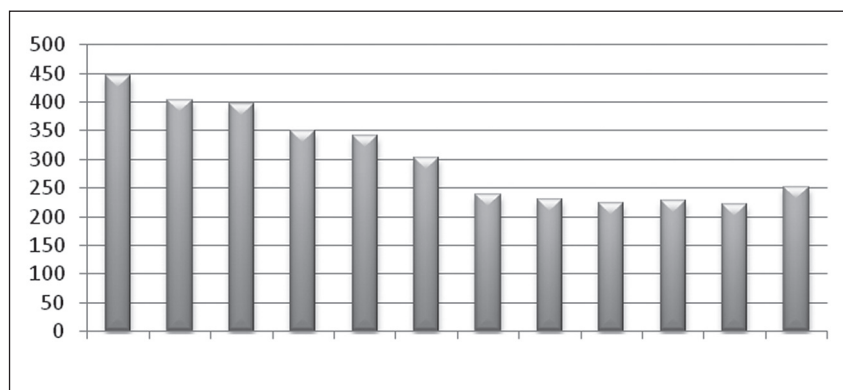


Figure 2. Dynamics in the number of dairy processors in Bulgaria for the years 2001–2011

Source: MAF, department “Agrostatistics”

Although the number of competitors is changing over the years, this doesn’t result in reduction of the intensity of competition. Though significantly fewer in number, the operating competitors have a capacity that vastly exceeds the current market absorption. In the conditions of shrinking market, the competitors implement more aggressive strategies and programs for retention the levels of sales, revenues and profits.

2.2. Determining the main companies (competitors)

Presently one can identify 24 leading companies of national importance in the dairy sector. They are crucial for the existence of intense competition in the sector (figure 3). The industry analysis shows that the sector is experiencing high degree of competition, due to several key factors:

- large number of competitors in the sector. According to the MAF (Ministry of Agriculture and Food) their number is 252;
- a decrease in demand for milk products, which is a result of the continuous difficult economic situation worldwide;

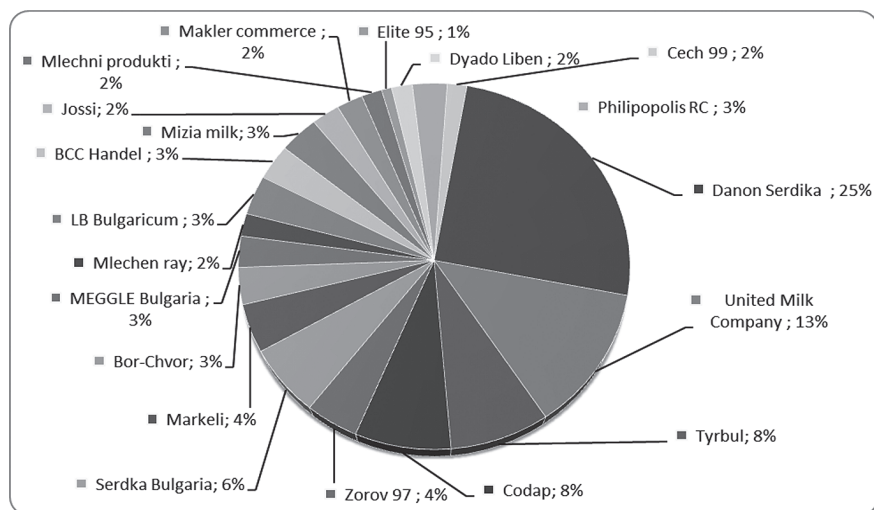


Figure 3. Market shares of the leading companies in the milk and milk products sector by revenues

Source: Author's research, based on data from The Bulgarian Trade Register, 2012

– in these conditions, there is a decrease in the frequency of purchase of milk products; downward pressure on product prices and shrinking of margins, are observed;

– presence of many companies in the sector is an important factor that intensifies the competition in the “Milk products” class and its inherent categories and product groups;

– despite the opportunities for differentiation of the companies' offers in the dairy products sector, intense competition is observed within the separate strategic groups formed on the basis of “price-quality-differentiation/positioning” ratio; sometimes such kind of competition also occurs between the different strategic groups;

– there is overcapacity in the sector, which can not be utilized due to the decline in demand; this causes orientation towards lower product prices;

– worsened economic conditions have adverse effect on the “equilibrium” of the competition. In search of options for keeping the level

of revenues and maintaining the desired profitability, competitors act in accordance with the conjuncture, without long-term strategies;

- disloyal business practices are another unfavorable factor; they result in non-payment of VAT (value added tax) and use of low-quality raw materials;

- as a result of the factors with unfavorable impact there is a decrease in companies' sales and revenues, deterioration of profitability in the sector and poor liquidity;

- increase in trade and bargaining power of the participants in the various trade channels, which put pressure on price levels, promotional conditions and the imposition of various fees;

- deficiency of milk as main raw material for the dairy processors;

The Bulgarian dairy sector is characterized by a number of features that create relatively high entry barriers for new competitors. Among the most important one should mention:

- high economic requirements for market researches, initial investments in tangible and intangible assets;

- significant financial resources are required to provide initial working capital;

- requirements for high technological level of manufacturing and need of qualified professionals in manufacturing, marketing and sales;

- in different market segments and strategic groups there are leaders who are "persecuted" by one or more competitors that threaten their leadership;

- market entry is hampered by entrance difficulties and penetration in the traditional distribution channels and store chains, which occupy an increasing market share

- various studies show that consumers of dairy products are loyal to one or several brands; this loyalty is a result of creativity, serious communication expenses and consistency in the products' quality;

- entry barriers are also determined by a number of legal requirements related to sanitary, product and other requirements that must be met in order to start manufacturing of dairy products;

- economic barriers include also experience curve, economies of scale, access to technology and know-how, specialized transportation requirements;

– in the current conditions, barriers are even higher, as the market shrinks, and competitors strive to maintain their market position and to occupy new ones.

In contrast to entry barriers, *the exit ones are not so high*. The decision to exit the sector is related to assessment of the appropriateness and the economic and financial condition of the particular company. If the company has not declared bankruptcy and has no signed contracts that could prevent the exit of the sector, the decision can be taken at any time.

3. Product-market profile and major forms of LPSs in the dairy sector

3.1. Key competitors product-market profile

The thorough study of the above mentioned leading competitors allows us to present shortly their product-market profile. Its importance is determined by the understanding of the leading role of product-market profile when determining the business strategies. Some of these companies are in the basis of the existing LPSs identified in the dairy sector.

DANONE SERDIKA is a global innovative company which applies a differentiated marketing with precise segmentation and positioning of the products. It is a driver for change in the sector in the following aspects: introduction of new technologies, process, product and marketing innovations.

As leader of the market, DANONE SERDIKA S.A has clearly defined product specialization, which focuses on the manufacturing and sale of various types of milk, without including other categories of milk products and offering rich assortment. It covers almost all product categories within the product class and drives innovations in the sector. It uses separate family brands for each product category.

In general, the products of DANONE SERDIKA are oriented towards children, adolescents and young people who are very loyal to the brand and have a serious impact on the purchases. The company aims to take a leadership position in each of the segments covered, as it is the undisputed leader in the following categories: fruit milk drinks, fruit yogurts, bifidus.

DANONE SERDIKA is most active in the marketing support for its products. Due to the highly developed distribution network and aggressive advertising, it provides rapid penetration and imposition of its new products on the market. The company implements differentiated marketing and its marketing efforts are aimed at precisely selected target segments. Its brands ("Danone", "Activia", "Danonino", "DZP", "Na baba", "Fantasy") have a precise positioning and leading position in the minds of consumers.

The company has serious financial capabilities exceeding these of the other competitors, enabling it to ensure financial resources for its marketing budgets.

United Milk Company (UMC) S.A. is the second main competitor in the sector. Its product portfolio covers yogurt and fresh milk, including skimmed milk, with calcium, UHT, fruit milk drinks, including flavored and lactic acid, cocktails, cheeses. The company's yogurts are offered with the following brand names: "Vereia", "Fibella", "Hansko", "Vitalact", "Vereia-Calcium", "Vereia 0%". A leading brand, which is positioned at the highest price level, having the largest share of the company's sales, is "Vereia". It is also one of the most recognizable brands on the market of fresh milk and yoghurt.

UMC is oriented towards product innovation. In recent years, the company introduced fresh milk and yoghurt with zero fat and with calcium, which are offered under the family brand "Vereia-0%" and "Vereia-calcium". In respect to technology, the company is one of the leaders in the sector.

UMC has well developed distribution network nationwide, which is accompanied by a well developed system of trade supplies. The company's merchandising provides a good presence in the retail stores. In recent years the company is experiencing some problems of financial nature.

TYRBUL S.A. ranks third in the sector. Despite the position occupied, it is not given a special attention, because its products are mainly for export. In Bulgaria its brands could be found in some regions and retail chains that have limited market presence. TYRBUL's products are in the following categories: yogurt, fresh milk, white cheese, strained yoghurt, cottage cheese. The company owns the family brand "Olimpus" and sub-brands: "Oly", "Feta", "Talia", "Elekton". In case of an appropriate strategy, the company has the potential to intervene more seriously on the milk products market in Bulgaria.

CODAP Ltd. ranks fourth in turnover and is also export oriented. CODAP is a subsidiary company of a German company with the same name. The vast majority of the cream produced by the company is intended for export.

The product portfolio of the company includes most of the main categories dairy products: yogurt, fresh milk, milk drinks, including fruit and flavored, white cheese, yellow cheese, cream for cooking. They are offered under the family brand "My day". CODAP offers a wide variety of fresh milks with different fat contents, calcium, fitness and for children, respectively, in box and bottle. The company offers a full children's series under the brand "Mlechno". The company's products are distinguished by their packaging that attracts consumer attention.

The company offers its products mostly in urban regions and is presented in most of the channels through which the products under the brand "My Day" reach their target markets. The brand products have active marketing support. They are well represented in terms of merchandising and are distinguished by their loyal customers.

The product portfolio of Zorov 97 includes traditional Bulgarian dairy products like: yogurt, white cheese, yellow cheese, cream, butter and also various delicacies. The company's brand is called "Parshevitsa". It is one of the milk products brands which are recognizable, liked and preferred on the market. Products with the brand name "Parshevitsa" are distributed through a well-developed distribution network and merchandising support.

It must be mentioned that 2 of the companies having leading position in 2009, with sales of over 20 000 thousand Levs (FAMA SERDIKA S.A., MARKELI S.A.), respectively with 6% and 4% market share, in 2011 were in difficult financial situation. Others, including: MEGGLE Bulgaria Ltd., Mlechen ray – 2 Ltd., LB Bulgaricum S.A., BCC Handel Ltd., MIZIA MILK Ltd., JOSSI Ltd., MAKLER COMMERCE Ltd., Mlechni produkti Ltd., ELITE 95 Ltd., Dyado Liben Ltd., Philipopolis RC Ltd. and CECH 99 Ltd. have approximately equal market shares of the revenues. The lowest in this group are the revenues of ELITE 95 and the highest – of MIZIA MILK.

The examined main competitors and the remaining more than 200 companies operating in the Bulgarian dairy sector determine growing intensity of competition, increased further by the difficult economic situation.

3.2. Milk sector product profile

The performed analysis outlines the product profile of the sector, which is a result of the diversity of the products offered by the competitors (figure 4). Based on the study of the product profile of 24 leading companies in the milk and milk products sector, a number of characteristics were identified.

The most intensive competition appears to be between the companies offering milk products traditional for the Bulgarian taste – yogurt, fresh milk, yellow cheese and white cheese. Yogurt is offered by 20 companies which are 83% of the ones surveyed, fresh milk is offered by 14 companies (58%), yellow cheese – by 17 and white cheese – by 19 companies, respectively 71% and 79%. Usually, for these types of products the companies create and establish family brands.

Lowest number of competitors (3 companies) is identified in the segment of bifidus products and its alternative – probiotics. The situation is similar for strained milk and starter cultures (three companies) and for the children series – four companies. The number of companies offering fresh fruit milk, butter and cream is also small.

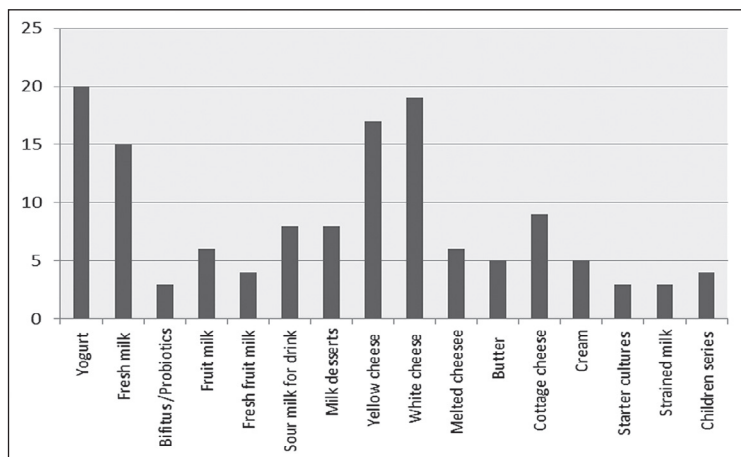


Figure 4. Number of competitors by product categories

Source: Author's research, 2012 (sample: 24 leading companies from the milk and milk products sector)

In this paper four basic versions of product specialization are outlined:

1. First option refers to business organizations that implement concentrated marketing within a particular product category. A typical feature of these companies is that they identify a single basic product-market unit which is intended for a specific target market (mass, target segment or niche).

2. Second option considers the situation where there is selective or complete specialization in a particular product category. In this paper, specialization is defined as concentric diversification within the category. Unlike the previous option, this offers a wide variety of products of the same category. There is a reason to differentiate a single product line (main product-market unit), within which two or more basic product-market units (intended for different target markets) fall. This option differs from the previous in the greater length of product line. Depending on the specifics of target markets, the main product units may possess lesser or greater depth compared with each other.

3. Third option is determined by the existence of market specialization. It occurs when a business organization offers main product units to the market that meet its specific needs. In this case, the same level of customer value must be offered in order to reach the desired level of customer satisfaction. These organizations have a greater width of the assortment and for the different product lines there is one main product unit with the respective various options.

4. Fourth possible option concerns business organizations that specialize in some or even all product categories within the class. This variant of specialization is evidence for the existence of concentric diversification within the product class. The degree of specialization within the individual categories may vary from product concentration through selective product specialization to full product specialization. Different situations that occur are reflected in the width of the assortment, as well as in the length and depth of each product line. These characteristics are manifested to their maximum extent when a business organization seeks complete market coverage.

The reasoning determines the product characteristics of assortment and product class to be interpreted from a market perspective. A separation of three market levels is generally assumed, that constitute the complex concept of market: 1) geographic markets on which the company operates or plans to expand with its products; 2) target segments for which the products are intended; 3) distribution channels which ensure their distribution;

The attractiveness and market potential must be defined for the product class, product categories and separate product groups by geographical markets, target segments and distribution channels. Along with this, market positions and growth potential by separate main product-market units, product lines of assortment of the business organization as a whole, are established.

3.3. Main kinds of LPSs in dairy industry

The specifics of milk and dairy products industry defines the presence of specific types of LPSs, identified in the sector. From the basic types of LPSs, proposed by Markusen,¹³ due to the specifics of the sector, such local production syetms that are close to Marshall's type as well as the "hub and spoke" type were identified. There are also identified variations of "satellite platforms" type, because some of the companies operating in the sector have policies and basic supplies performed by related companies localized abroad.

When it comes to geographical positioning, a definite regional specialization is observed that is determined mainly on production basis. In this sense, the manufacturing plants are built in areas that are traditionally characterized by specialization in dairy farming or they form a base, on which a number of farms arise.

Training of specialists with higher education is made on a centralized basis in the University of Food Technologies in Plovdiv, while specialists with secondary vocational education are educated in the agricultural colleges, which are established on a regional basis. Operation of milk processing enterprises and farms are assisted by specialized institutes and organizations.

According to the classification of Enright,¹⁴ which refers to LPS depending on the stage of their development, predominantly latent and potential LPS in the sector could be identified. The reason for presence

¹³ A. Markusen and M. Gray, *Industrial Clusters and Regional Development*, Rutgers University Center for International Business Education and Research, New Jersey 1996.

¹⁴ M. Enright, *Survey on the characterization of regional clusters: Initial Results*, Working Paper, Institute of Economic Policy and Business Strategy: Competitiveness Program, University of Hong Kong, 2000.

of latent LPS lies in the fact that there is a number of cases where there is a critical mass of companies in Bulgaria, but there is no utilization of the potential of the particular LPS and individual organizations within it. This is due to the lack of integrated interaction and trust between the parties and therefore absence of vision for their future development. The identification of potential LPS of the policy-driven type, in turn, is determined by the fact that the government conducts a particular policy. Despite the presence of competitive advantages of the companies in the sector, there could not be formed a critical mass of companies which would eventually lead to a better export potential, and this is due to the government's policy.

The basic incorporating principle for combining all types of identified LPS is the existence of vertical integration in the value added chain. It is conditioned by the sectoral determination of the considered LPS.

The condition of LPS in the Bulgarian dairy sector at the moment makes it necessary to put emphasis on the examination of LPS, focusing mainly on the development of vertical integration. At the heart of such integration lies the development of a company's activity, which produces milk and milk products for final consumption. There are many small or a few larger farms gravitating in its orbit. These farms' dependence on the condition of the company (companies), which buy their products requires emphasis on the issue of its (their) development. Therefore, this paper focuses on product-market business strategies, which can achieve growth and sustainable competitive advantage for the manufacturers and associated suppliers.

4. Business strategies in companies and LPS in Dairy industry in Bulgaria

In adapting Porter's and Ansoff's concepts for business strategies some of the sector's important features are considered. The latter are associated with: large product diversity, presence of large number of competitors distinguished by size, objectives, strategies, financial resources and product-market profile.

The product diversity is a matter of particular interest. The milk products class includes a variety of product categories such as: yoghurt (sour milk), fresh milk, white cheese, yellow cheese, fruit yogurts, fresh fruit milk, bifidus/probiotics, butter, cottage cheese, sour cream, different children's products, etc. Because of this diversity, the matters related to product-market profile of the sector and main competitors acquire significant importance.

The comparison of product characteristics for the class (sector, strategic business area) and the characteristics of the assortment is the main instrument for determination of product profile for each particular business unit. It helps to establish direct and indirect competitors according to product specialization, which is identified within the product class, product categories and specific product groups. The specialization of competitors varies widely. It depends on the characteristics of the sector and the business organization's internal conditions.

4.1. Strategies according to market position

When considering a particular business organization the decision-making in this area depends specifically on the characteristics of its product-market profile, as well as of the external and internal conditions. There are four possible options of determining the market position arising from the four basic profiles of product specialization.

The first option requires a decision-making solely based on the market position of the product, compared to its direct competitors in the particular target market segment, taking into account the achieved geographical coverage, distribution penetration and other positional parameters.

The second option relates to the position of business organizations that follow the strategy of product specialization. They are offering a variety of products within a particular product category. The aim is to cover several or almost all market segments. Logically they need to be approached differently in determining the market positions: market positions by various product groups and market segments must be established, and also

by the product category as a whole. In this case we are talking about a leader, challenger or follower within the product group and the target segment and product category.

In the third option, when there is a market specialization, the position of different main product units is determined, which are intended for the target market for which this strategy is set. Usually, different main products which can achieve market specialization are offered under one and the same brand. As the main product units belong to different categories, this suggests also a variety of competitors. This requires the positions of each main product unit to be determined in relation to specific competition conditions.

The fourth and last option, where business organizations apply concentric diversification within the product class, involves two or more product lines in companies' assortment, which correspond to different product categories within the product class. Issues related to market positions are considered for product lines and main product units falling within their composition, based on market segments for which they are intended and the geographical coverage. If the business organization provides full market specialization, it is not only the determination of the positions of major and main product units that is essential but also the positions of business organization in the product class as a whole as well.

4.2. Product-market strategies

Market penetration occurs differently and depending on product specialization of the business unit as well as market coverage and penetration of the product-market units. The previously adopted four basic variants of product specialization suggest its specific manifestation, while dealing with the issues related to the strategy of penetration.

First of all, for business organizations that implement a strategy of concentration, are identified opportunities for market development as the only main product unit and its various options which they produce and offer on the market.

Second, for these business organizations that have chosen a strategy of specialization (concentric diversification), product development is determined for each main product unit within the product line. On this basis, the potential development of the product line as a whole must also be determined.

Third, in business organizations where there is a strategy of market specialization, the market development is determined for each product unit through which the needs of target market are satisfied.

Fourth, when the business organizations apply concentric diversification within the product class, the issues of market development are considered for each product line, separate main product units included in their composition and for the assortment as a whole.

When a significant change is not required in the products of marketing and production point of view, the market development also includes entering new market segments.

Product development is the next possible option available to business managers in the dairy industry. Based on the characteristics of each of the four main product specialization variants, their occurrence could be interpreted provided that the variant of undertaking market development is considered.

First of all, because of the specifics of the concentration strategy, the product development considerations refers only to one main product unit.

Second, in the case of product specialization the product development is considered in each of the main product units, included within the composition of the product line.

Third, when applying market specialization, the issues of product development are considered for each separate product unit and totally for all of them through which the needs of the target market are satisfied.

Fourth, product development is considered for each product line through the main separate product units which are included in their composition.

Strategy of concentric diversification in a single product category is observed in cases when good possibilities are be found through the current product-market profile. They are identified in the frames of the existing product lines (product categories). It consist of creating new products designed for a new market segment, by using the existing technologies and the marketing organization.

First, in the presence of concentration, the concentric diversification takes place by offering new main product units which are in technological synergy with the existing products, the same marketing organization is applied, but using a new brand and specific positioning.

Second, when there is specialization (concentric diversification strategy implemented within the specific category) the additional concentric diversification aims to capture complementary segment within the product category.

Third, when there is market specialization, the concentric diversification tends towards specialization in terms of new market or launching of additional basic product unit in one of the product lines (categories).

Fourth, when business organizations apply concentric diversification, the additional concentric diversification issues are considered for each product line.

Strategy of concentric diversification in product class borders is the fifth and last possible product-market option for a company in dairy industry. The application of this strategy requires the company to seek new products that are purchased by current and new customers, although technologically they are not related to existing product lines. Concentric diversification strategy is undertaken in cases where they can find good opportunities in the product class by entering new product categories. Such opportunities are determined by the availability of promising product categories which are not technologically related with the existing product lines, but there is marketing and logistical synergy. The entry is determined by the characteristics of the product-market profile and the capabilities of the respective business organization.

First, if there is concentration, the concentric diversification is implemented by the introduction to the market of one or several new main product units which belong to a different product category.

Second, when there is specialization, the horizontal diversification as well as the additional concentric diversification aim to capture a complementary segment within the product category.

Third, in the case of market specialization, the concentric diversification is reflected in the partial or complete specialization in one or several categories.

Fourth, when the business organizations cover two or more product lines which correspond to certain product categories on the market, the concentric diversification is reflected in the introduction of new product categories.

If full market coverage is achieved within the product class, the horizontal diversification allows entry into a new business area.

The strategy of conglomerate diversification is associated with the fact that the company creates or acquires business activities that manufacture or sell products which are not linked to current production, technology and markets. Therefore, this type of strategy is not considered as product-market business strategy.

4.3. Manifestation of competitive business strategies depending on product specialization

While the strategic issue to be decided by the matrix of Ansoff is defining the scope of the business, the competitive business strategies of M. Porter are used to identify the specific competitive approach towards the relevant target markets. The proposed conceptualization of business organizations' product specialization, which was stated above, suggests taking into consideration the specific manifestation of competitive business strategies that it entails.

First, in the case of concentration it is possible to apply each of the examined competing strategies. The particular choice is determined by the characteristics of the one target market for which the one main product unit is intended.

Second, when considering product specialization there are several competing approaches possible. The first approach is associated with selective specialization, applying the strategy of differentiation for all main product units included in the single product line. The second approach is also selective, but its products are oriented towards achieving cost leadership and combined (mixed) strategy. The third approach involves offering of all possible strategies within the product category.

Third, when considering market specialization only one of the above mentioned competitive strategies is determined, depending on the characteristics of the particular target segment.

Fourth, when the business organizations cover two or more product lines which correspond to certain product categories on the market, unity or a different combination of competitive approaches is possible for each of the product lines.

4.4. Implementation of business strategies in LPS

Defining business goals and priorities depends on whether the product-market strategies that will be adopted in the LPS have an offensive or defensive character. The selection of a specific product-market specialization defines the boundaries of the battlefield (business area) of LPS. This in turn determines who will be the main competitors, to which LPS and the organizations included should identify the main competing approaches. Some characteristics identify for single business organization could be interpreted taking in consideration the LPS's strategies.

First, at the basis of defining the LPS's strategy/strategies should be the clear definition of the characteristics of LPS; on this same basis shall its typology be conducted. Second, the business strategy of LPS is associated with the fulfillment of the aim of the leading organization in the LPS and of the other companies included.

Third, the product-market profile determines the scope of activity and defines the competitive approach/approaches. In making decisions about the scope and competitive approach of LPS it should be taken into account its characteristics and those of its constituent organization, as well as the needs of the market and competitive conditions.

Fourth, the issue of resource provision is crucial in making decisions related to business strategies within the LPS. The initial stage assess the ability of individual organizations and LPS as a whole to provide the necessary resources. And less important is the evaluation of the economic viability of the strategy. During the implementation, control is recommended on the resources being spent, extent of strategy implementation and achievement of objectives.

Fifth, for making decisions, the related product-market business strategies and the identification of the main competing approaches in the LPS cannot rely solely on the intuition of managers of individual organizations.

Considering the characteristics of the LPS, the implementation and enforcement of a suitable system for strategic business planning is recommended, which is based on the configuration approach. Configuration approach suggests referring to the advantages of the approaches that various schools in the field of strategic management suggest.

Sixth, the most common business strategies in the LPS are classified as offensive and defensive. When LPS organizations strive towards high rates of growth, with increased sales revenue and market share, they apply an offensive strategy. In all cases, offensive strategies are oriented to “size” a better position in existing markets (“territories”) or entering new ones. The defensive strategies, in turn, are oriented to maintain market positions, and hence the values of the main economic indicators of individual organizations and LPS as a whole. They are oriented towards the protection of market positions and weakening the attacks of the competitors which may be other LPSs or individual companies. These types of strategies may require withdrawal from certain markets or of existing products. The aim is concentrating their efforts to protect a limited area’s survival, if appropriate. It is also allowed a complete and controlled withdrawal from the market.

Seventh, the successful implementation of offensive and defensive strategies requires their successful deployment in tactical and operational actions that takes place in the individual participants in the LPS. In this respect, into action should come the ability to successfully manage the value adding chain within the LPS as a whole and the related operations that are performed in the individual organizations. The offensive and defensive strategies imply a different approach to resources distribution and determining the actions of the LPS by defining appropriate strategies, policies and mechanisms (marketing, production, innovation, human resources) within the context of value adding chain.

5. Conclusions

Dairy sector is characterized by intense competition and dynamically changing environment; wide variety of companies is identified, distinguished by their size, product specialization, market coverage, objectives, strategies,

product and market profile. In this sector, also different types of LPS can be identified. All these circumstances make business strategies concepts a question of present interest. Because of the fact that milk products class includes a variety of product categories (yoghurt (sour milk), fresh milk, white cheese, yellow cheese etc.), the matters related to product-market profile of the sector and main competitors acquire significant importance.

Due to the current conditions of dairy industry, it can be concluded that the only engine for the development of LPS appears to be the variety of dairy products manufacturers. They are the main reason for product innovation in the sector, establishing of farms, their development and expansion.

In this context, the leading role of issues related to product-market business strategies for sustainable development occurs. It concerns both the companies themselves and the LPS to the extent to which they occur and in the sector. The successful implementation of business strategies depends on all the individual participants in the LPS. Opportunities for development of LPS in the dairy sector are rooted in the achievement of horizontal cooperation among competitors in Bulgaria, which take place under the umbrella of the state or even better – of one or another of the main producers. The main role of this collaboration should be aimed at developing export potential for Bulgarian dairy products.

The results in the current paper would be of interest to a number of stakeholders: owners, executives, managers and professionals associated with the companies and LPS's activity in dairy industry, local and state agencies and others. The results obtained may be used as a basis for further scientific researches.

Bibliography

- Ahlstrom D., Bruton G. D. (2009), *International Management: Strategy and Culture in the Emerging World*, Mason, OH: Cengage Learning.
- Ansoff I. (1965), *Corporate strategy: an analytic approach to business policy for growth and expansion*, 1st Edition, McGraw-Hill, New York.
- Ansoff I. (2007), *Strategic Management*, Classical Edition, Palgrave Macmillan, New York.

- Enright M.(2000), *Survey on the characterization of regional clusters:Initial Results*, Working Paper, Institute of Economic Policy and Business Strategy: Competitiveness Program, University of Hong Kong.
- Grant M. R. (2010), *Contemporary Strategy Analysis: Text Only*, John Wiley and Sons.
- Henry A. (2008), *Understanding Strategic Management*, Oxford University Press.
- Hill Ch. and Jones G. (2009), *Strategic Management – Theory: An Integrated Approach*, USA: Cengage learning.
- Johnson G., Scholes K. and Whittington R. (2010), *Exploring Corporate Strategy*, 8th edition, FT: Prentice Hall.
- Kotler P. and Keller K. (2011), *Marketing management*, 14th edition, New Jersey: Prentice Hall.
- Miles D. A. (2011), *Risk Factors and Business Models. Understanding the Five Forces Of Entrepreneurial Risk and The Causes Of Business Failure*, Florida: Universal-Publishers.
- Markusen A. and Gray M. (1996), *Industrial Clusters and Regional Development*, Rutgers University Center for International Business Education and Research, New Jersey.
- Mintzberg H., Quinn J. B. and Ghoshal S. (2003), *The Strategy Process: Concepts, Contexts, Cases*, 4th global edition, Pearson Education.
- Porter M. (2008), *Competitive strategy: techniques for analyzing industries and competitors*, 1th edition, Free Press, New York.
- Simon H. (2009), *Hidden Champions of the Twenty-First Century: The Success Strategies of Unknown World Market Leaders*, Springer.
- Bulgarian Association of Dairy Processors, <http://www.milkbkg.org/>.
- Bulgarian Trade Register, <http://public.brra.bg/CheckUps/Default.ra?0>.
- Megazine “Regal, <http://www.regal.bg/show.php?storyid=2084599>.
- Megazine “My Store”, <http://www.mytore.bg/n/n%D0%BEvini/2012/pazarat-na-paket-iran-kaskaval-v-balgaria>; <http://www.mystore.bg/n/n%D0%BEvini/2012/pazarno-proucvane-otnosno-pazara-na-sirene-v-balgaria>.
- Ministry of Agriculture and Food (MAF), <http://www.mzh.government.bg/MZH/bg/ShortLinks/SelskaPolitika/MarketMeasures/Sectors/Milk.aspxh>.

Abstract

The following paper examines the issues related to product-market business strategies. They are considered in the case of nonbusiness organizations and local production systems (LPS), which operate in the sector of milk and dairy products in Bulgaria. For the purpose of estimating the intensity of competition the number of competitors was computed, including these which are of paramount importance for the industry. The paper outlines some basic types of LPS within the industry. It also discusses the assertion that a presence

of enhanced vertical integration is identified within the sector, where the producers of milk and dairy products have a leading role. On this basis, the product market business strategies for the development of manufacturing companies and for the LPS as a whole appear to play a key role in the sector.

Key words: local production systems, dairy industry, product-market analysis, business strategies.